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United Nations

# Report of the Committee on Contributions

## Seventy-third session (3-21 June 2013)

**General Assembly**
**Official Records**
**Sixty-eighth Session**
**Supplement No. 11**

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**Seventy-third session**
**(3-21 June 2013)**

United Nations • New York, 2013

*Note*

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*Summary*

At its seventy-third session, the Committee on Contributions reviewed the methodology of the scale of assessments pursuant to rule 160 of the rules of procedure of the General Assembly and Assembly resolutions 58/1 B and 67/238.

With regard to the methodology for the scale of assessments, the Committee:

(a) Recalled and reaffirmed its recommendation that the scale should be based on the most current, comprehensive and comparable data available for gross national income (GNI);

(b) Recommended that the General Assembly encourage Member States to submit the required national accounts questionnaires under the 1993 System of National Accounts (SNA) or the 2008 SNA on a timely basis. The Committee also expressed support for the efforts of the Statistics Division of the Department of Economic and Social Affairs of the Secretariat to enhance coordination, advocacy and implementation of SNA and supporting statistics at the national level, with a view to enabling Member States to submit national accounts data on a timely basis, with the required scope, detail and quality;

(c) Recalled and reaffirmed its recommendation that market exchange rates should be used in preparing the scale, except where that would cause excessive fluctuations and distortions in GNI of some Member States expressed in United States dollars, in which case price-adjusted rates of exchange or other appropriate conversion rates should be applied, if so determined on a case-by-case basis;

(d) Agreed that, once chosen, there were advantages in using the same base period for as long as possible;

(e) Decided to further consider all elements of the scale methodology at its future sessions in the light of guidance from the General Assembly.

The Committee also decided to study further the questions of annual recalculation and large scale-to-scale increases in the light of guidance from the General Assembly.

With regard to multi-year payment plans, the Committee recommended that the General Assembly encourage those Member States in arrears under Article 19 of the Charter of the United Nations to consider submitting multi-year payment plans.

With regard to exemptions from the application of Article 19 of the Charter, the Committee recommended that the following Member States be permitted to vote in the General Assembly until the end of its sixty-eighth session: Central African Republic, Comoros, Guinea-Bissau, Sao Tome and Principe and Somalia.

Under other matters, the Committee:

(a) Took note of a request from Iraq and decided to use the external debt information provided by Iraq for the preparation of future scales of assessment;

(b) Recommended that the State of Palestine be assessed, as a non-member observer State, at 50 per cent of the notional rate of assessment of 0.005 per cent;

(c) Decided to hold its seventy-fourth session from 2 to 20 June 2014.

[25 June 2013]

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# Chapter I

## Attendance

1. The Committee on Contributions held its seventy-third session at United Nations Headquarters from 3 to 21 June 2013. The following members were present: Andrzej T. Abraszewski, Joseph Acakpo-Satchivi, Syed Yawar Ali, Gordon Eckersley, Bernardo Greiver, Ihor V. Humenny, Nikolay Lozinskiy, Susan M. McLurg, Pedro Luis Pedroso Cuesta, Gönke Roscher, Henrique da Silveira Sardinha Pinto, Thomas Schlesinger, Thomas David Smith, Xudong Sun, Josiel Motumisi Tawana, Kazuo Watanabe and Dae-jong Yoo.

2. The Committee welcomed the new members and thanked the three outgoing members, Meshal Al-Mansour, Elmi Ahmed Duale and NneNne Iwuji-Eme, for their hard work and years of service in the Committee.

3. The Committee elected Mr. Greiver as Chair and Mr. Eckersley as Vice-Chair.

# Chapter II
## Terms of reference

4. The Committee on Contributions conducted its work on the basis of its general mandate, as contained in rule 160 of the rules of procedure of the General Assembly; the original terms of reference of the Committee contained in chapter IX, section 2, paragraphs 13 and 14, of the report of the Preparatory Commission (PC/20) and in the report of the Fifth Committee (A/44), adopted during the first part of the first session of the Assembly on 13 February 1946 (resolution 14 (I) A, para. 3); and the mandates contained in Assembly resolutions 46/221 B, 48/223 C, 53/36 D, 54/237 C and D, 55/5 B and D, 57/4 B, 58/1 A and B, 59/1 A and B, 60/237, 61/2, 61/237, 64/248 and 67/238.

5. The Committee on Contributions had before it the summary records of the Fifth Committee at the sixty-seventh session of the General Assembly relating to agenda item 134, entitled "Scale of assessments for the apportionment of the expenses of the United Nations" (A/C.5/67/SR.2, 4 and 22) and the verbatim records of the 23rd and 62nd plenary meetings of the Assembly at its sixty-seventh session (A/67/PV.23 and 62), and had available the relevant reports of the Fifth Committee to the Assembly (A/67/502 and Add.1).

# Chapter III
# Review of the methodology for the preparation of the scale of assessments

6. At its seventy-third session, the Committee on Contributions recalled that, in its resolution 55/5 B, the General Assembly had established the elements of the methodology used in preparing the scale of assessments for the period 2001-2003, which had also been used since then in preparing the scale of assessments for the subsequent four periods.

7. In adopting the latest scale of assessments in its resolution 67/238, the General Assembly noted that the application of the current methodology reflected changes in the relative economic situations of the States Members of the United Nations. The Assembly also noted that changes in Member States' shares in world gross national income (GNI) result in changes in relative capacity to pay, which should be more accurately reflected in the scale of assessments. The Assembly recognized that the current methodology could be enhanced, bearing in mind the principle of capacity to pay, and that there was a need to study the methodology in depth and in an effective and expeditious manner, taking into account the views expressed by Member States. The Assembly requested the Committee, in accordance with its mandate and the rules of procedure of the Assembly, to review and make recommendations on the elements of the methodology of the scale of assessments in order to reflect the capacity of Member States to pay, and to report thereon to the Assembly by the main part of its seventieth session.

## A. Elements of the methodology for the preparation of the scale of assessments

8. The Committee recalled that the same methodology used in preparing the scale of assessments for the past four periods had been used in preparing the scale of assessments for the period 2013-2015. A detailed description of the methodology used in preparing the current scale is contained in annex I to the present report. Based on the general mandate given to it under rule 160 of the rules of procedure of the General Assembly, as well as the requests contained in Assembly resolutions 58/1 B and 67/238, the Committee carried out a review of the elements of the current methodology.

### 1. Elements for making comparative estimates of national income

#### (a) Income measure

9. The Committee recalled that the income measure was a first approximation of capacity to pay. At its seventy-second session, the Committee had reaffirmed that the scale of assessments should be based on the most current, comprehensive and comparable data available for GNI.

10. In reviewing this element, the Committee recalled paragraph 7 of resolution 67/238, in which the General Assembly noted that changes in Member States' shares in world GNI result in changes in relative capacity to pay, which should be more accurately reflected in the scale of assessments. The Committee agreed that GNI could be more accurately reflected in the scale of assessments through an increase in

the number of Member States implementing the more recent standards under the System of National Accounts (SNA).

11. In the past, concerns had been raised about the comparability of data between countries reporting according to the 1993 SNA and those reporting according to the 1968 SNA. At its seventy-third session the Committee reviewed updated information indicating that an increasing number of Member States have adopted the 1993 SNA, therefore diminishing potential impact on the comparability of data. In 2008, at its thirty-ninth session, the Statistical Commission adopted the 2008 SNA and encouraged Member States to implement its recommendations. While only two Member States currently compile national accounts statistics in accordance with the 2008 SNA, there were no major conceptual differences for calculating gross domestic product (GDP) and GNI between the 1993 SNA and the 2008 SNA, and it was expected that the data compiled according to those two standards would generally be comparable.

12. While acknowledging the improvement over the years, the Committee stressed the importance of Member States adopting and reporting on a timely basis under the 1993 SNA or the 2008 SNA. This would diminish any potential impact on the comparability of GNI data between the Member States reporting under the 1993 SNA or the 2008 SNA and the 32 Member States continuing to report under the 1968 SNA. In this connection, the Committee noted that the 1993 SNA took into account a number of major conceptual changes as compared to the 1968 SNA (see annex II). The Committee noted that the GNI data reported under the 1993 and the 2008 SNA was a more accurate reflection of the full productive output of an economy than under the 1968 SNA.

**Member States reporting national accounts statistics under the 1993 SNA or the 2008 SNA**

| *Year* | *Number* | *Percentage of total 2011 GNI* | *Percentage of total 2011 population* |
|---|---|---|---|
| 2009 | 134 | 95.0 | 88.0 |
| 2010 | 139 | 95.1 | 88.2 |
| 2011 | 150 | 96.3 | 90.7 |
| 2012 | 156 | 98.7 | 93.2 |
| 2013[a] | 161 | 98.7 | 94.2 |

[a] As at 21 June 2013.

13. The Committee also noted that the timely submission of gross national disposable income (GNDI) data by an increasing number of Member States could also allow future review of GNDI data as a basis for future scales of assessment. In its assessment of the various income measures as the first approximation of the capacity to pay, the Ad Hoc Intergovernmental Working Group on the Implementation of the Principle of Capacity to Pay (A/49/897) had agreed that national disposable income is theoretically the most appropriate measure of capacity to pay. National disposable income represents the total income available to residents of a country, namely, national income plus net current transfers receivable from the rest of the world (such as remittance flows).

14. The Committee revisited the availability of the data on GNDI for its possible use as an income measure. However, owing to the lower reliability and availability of data on this income measure, the Committee considered that it is still not feasible to use this income measure for the scale of assessments.

**Availability of GNDI data as at December 2012**

| *Countries providing GNDI data* | *2006* | *2007* | *2008* | *2009* | *2010* | *2011* |
|---|---|---|---|---|---|---|
| Number | 126 | 121 | 116 | 113 | 100 | 49 |
| Contribution in the 2013-2015 scale | 93.3 | 93.3 | 93.1 | 92.7 | 91.9 | 44.6 |

15. The Committee also reviewed the reliability of statistical data available with a two-year time lag. The Committee noted that most national statistical organizations revise their estimates, providing provisional estimates first, followed by revised estimates and then final estimates. Some countries are able to publish only provisional estimates of national accounts statistics with a two-year time lag. Based on its review of the extent of average annual revisions of the estimates of GDP over a period of one to four years after initial publication, the Committee noted that provisional estimates of national accounts aggregates are often substantially revised in subsequent years. Furthermore, the extent of revision in the recent data may be significant for some countries.

**Extent of annual revisions of nominal GDP since initial release**

| | *Time after initial publication* | | | |
|---|---|---|---|---|
| *Data* | *One year* | *Two years* | *Three years* | *Four years* |
| Extent of average revision (percentage) | 6.0 | 4.8 | 4.3 | 3.7 |

16. Based on its review of the availability of GNDI data, the timeliness and revisions to GNI data and the number of Member States that provide national accounts data according to the 1993 or the 2008 SNA, the Committee noted that considerable data gaps in national accounts and supporting statistics prevail for some Member States in terms of scope and timeliness. In this connection, the Committee also noted that, at its forty-fourth session, in 2013, the Statistical Commission requested the Statistics Division of the Department of Economic and Social Affairs of the Secretariat to support countries and regional organizations to enhance coordination, advocacy and resources for the implementation of the 2008 SNA and supporting statistics at the national level, where required. For that purpose, it requested the Statistics Division to take into account, inter alia, coordination, political engagement and resources at the national level, lessons learned from other international statistical initiatives, the sharing of national experiences and the engagement of national statistical systems. The Committee noted that proposals for enhancing the implementation of SNA will be considered by the Statistical Commission at its forty-fifth session, in 2014.

17. One member expressed the view that further study should be given to the concept of taking into account indicators of government revenue, such as national budgets or collection of taxation. Other members stressed that there would be

difficulties in incorporating such indicators owing to the differences in government activities and structures among Member States.

18. **The Committee recalled and reaffirmed its recommendation that the scale of assessments should be based on the most current, comprehensive and comparable data available for GNI. The Committee also recommended that the General Assembly encourage Member States to submit the required national accounts questionnaires under the 1993 SNA or the 2008 SNA on a timely basis. The Committee also expressed support for efforts by the Statistics Division to enhance coordination, advocacy and implementation of SNA and supporting statistics at the national level, with a view to enabling Member States to submit national accounts data on a timely basis with the required scope, detail and quality.**

### (b) Conversion rates

19. A conversion factor is needed to convert the GNI data received from Member States in their national currencies to a common monetary unit. In accordance with General Assembly resolutions, a conversion factor based on the market exchange rates (MERs) was used for the scale methodology, except in cases where that would cause excessive fluctuations and distortions in the income of some Member States, in which case price-adjusted rates of exchange (PAREs) or other appropriate conversion factors were used.

20. The Committee recalled that it had developed systematic criteria to help identify MERs that cause excessive fluctuation and/or distortion in GNI for possible replacement with PAREs or other appropriate conversion rates. The stepwise application of the systematic criteria, shown in annex III to the present report, may be summarized as follows (as applied for the 2013-2015 scale of assessments):

(a) The first step of the systematic criteria is to identify the Member States whose exchange rates have been fixed for a long period of time and whose per capita GNI level in United States dollars, using such exchange rates, seems not to represent economic reality, for example when their per capita GNI levels in United States dollars are not comparable to those of neighbouring countries at the same level of economic development. Countries with a coefficient of variation in MERs of less than 3 per cent over the applicable period (for example, 2005-2010) are examined. MERs of these countries were also compared to the United Nations operational rates and to conversion rates employed by the International Monetary Fund (IMF);

(b) The second step is to identify Member States with a growth factor of their per capita GNI, in United States dollars in nominal terms (at current prices) using MERs, greater than 1.5 times the growth factor of the world per capita GNI or smaller than 0.67 times the growth factor of the world per capita GNI between the two immediate reference periods of three years each, for example 2005-2007 and 2008-2010;

(c) The third step is to identify Member States with an MER valuation index (MVI) greater than 1.2 or less than 0.8 times the average MVI across all Member States during the same period.

21. The Committee noted that no single criterion would automatically solve all problems satisfactorily and that any criteria would be used solely as a point of

reference to guide the Committee in identifying Member States whose MERs should be reviewed. The Committee also noted that, in addition to the systematic criteria, there were other indicators and tools which theoretically could be used to identify countries for review, and that ultimately decisions would need to be taken on the basis of a detailed case-by-case review.

22. The Committee reviewed the systematic criteria, including the impact of application to available updated statistical data. The Committee also considered the impact of modifications to the systematic criteria. Such modifications could include: (a) changing the range of the variations of the thresholds of its two parameters, namely the per capita GNI growth factor and the MVI; and (b) using a statistical measure to reduce the impact of fluctuations in MERs in the cross-country comparison of national income. Some alternative ways to smoothen fluctuations in MERs are to use either a moving average[1] of MERs over a reference period of more than one year or to use a conversion factor obtained using the modified Atlas method. The modified Atlas conversion factor for any year is the average of a country's exchange rate for that year and its exchange rates for the two preceding years, adjusted for the difference between the rates of inflation in the country and the world economy (international inflation, measured by the implicit GDP deflator of the United Nations membership). The Committee decided to further study the systematic criteria at future sessions, including whether there was any need for modification.

23. **The Committee recalled and reaffirmed its recommendation that conversion rates based on MERs should be used for the scale of assessments, except in cases where that would cause excessive fluctuations and distortions in GNI of some Member States expressed in United States dollars, in which case PAREs or other appropriate conversion rates should be applied, if so determined on a case-by-case basis.**

### (c) Base period

24. For the scale methodology, GNI data expressed in United States dollars is averaged over a designated base period, using the most recently available data at the time that the scale is considered by the Committee. In the past, the base period used in preparing the scale of assessments varied from 1 to 10 years. The scales for the periods 2001-2003 to 2013-2015 have used the average of the machine scales using base periods of three and six years.

25. The Committee noted that, in basing the scale on average statistical base periods of six and three years, two scales are separately calculated for each of the six-year and three-year base periods and are then averaged to form a final scale of assessments. Some members pointed out that an alternate approach could consist of first averaging the GNI data for three-year and six-year periods and then running a single machine scale on the average, instead of running two separate machine scales for each period and averaging their results. This approach generally resulted in a slight difference for most Member States, but a notable impact for those States crossing the threshold. Some members expressed the view that a single machine run would be more in line with the decision of the General Assembly to base the scale of

[1] An n year moving average of the MER of a country for year t is the average of its MERs for the years t, t-1, ....., t-(n-1).

assessments on the average of two base periods. Other members were of the view that there was no need to change the current practice, which had been implemented over the years based on the understanding at the time of adoption of resolution 55/5 B in 2000.

26. The Committee recalled that the advantages and disadvantages of both shorter and longer base periods had been discussed extensively by the Committee at its previous sessions. Some members of the Committee have favoured longer base periods as a way of ensuring stability and smoothing out sharp year-to-year fluctuations in the income measure of Member States, while others have favoured shorter base periods to better reflect the current capacity of Member States to pay.

27. At its seventy-second session, the Committee noted that there was no clear rationale for changing the current combined approach based on both three-year and six-year periods. In reviewing this element at the seventy-third session, some members interpreted paragraph 7 of General Assembly resolution 67/238 as a basis for a different conclusion. In their view, in order to more accurately reflect capacity of Member States to pay, a shorter base period of three years should be used. Other members expressed the view that there was no direct connection between the base period and paragraph 7 of the resolution. In their view, the paragraph could be interpreted to relate to all elements of the methodology.

28. **The Committee agreed that, once chosen, there were advantages in using the same base period for as long as possible.**

### 2. Debt-burden and low per capita income adjustments

#### (a) Debt-burden adjustment

29. The debt-burden adjustment has been part of the scale methodology since 1986. It was introduced to provide relief to Member States by reflecting the impact of the repayment of their external debt on their capacity to pay. Given that interest on external debt is already accounted for as part of GNI, the debt-burden adjustment in the current methodology is calculated by deducting the principal payments on external debt from GNI in United States dollars. Percentage shares are recalculated based on debt-adjusted GNI, and therefore the impact of the debt-burden adjustment is indirectly distributed to all Member States.

30. Limitations in the availability of data on principal payments on debt at the time the adjustment was introduced led the Committee to base the adjustment on a proportion of the total external debt stock of the Member States concerned. For that purpose, it was assumed that external debt was repaid over a period of eight years, so that the adjustment to the GNI data was 12.5 per cent of total external debt stock per year. This became known as the debt-stock approach. Alternatively, the adjustment could be based on data on actual repayments of debt principal, which became known as the debt-flow approach.

31. Consequently, there are two issues related to the current methodology of the debt-burden adjustment that have been raised that can now be addressed using the currently available data: (a) whether to use total external debt data or to use only public and publicly guaranteed external debt data; and (b) whether to base the adjustment on the debt-stock or the debt-flow approach.

32. When the debt-burden adjustment was introduced, the Committee noted two main reasons as to why it was preferred to use public external debt rather than total external debt. Firstly, not all private external debt is included in total external debt. Secondly, private external debt does not constitute the same burden on capacity to pay as public external debt. Public debt is distinct from private debt in that it has to be repaid from the government budget. Moreover, it is possible to default on the repayment of private debt through bankruptcy of private enterprises, while defaulting on the payment of public external debt is the result of a political decision. The Committee decided, however, to use total external debt rather than public debt because of the greater availability of data and the lack of distinction between public and private debt in the data available. In recent years the availability of data from the World Bank on external public debt and publicly guaranteed debt has improved substantially: in 1985, data on external public debt was available for only 37 countries; in December 2012, data was available on 128 countries.

33. With regard to the availability of information required for the application of the debt-stock and debt-flow approaches, the Committee noted that for the 2005-2010 period, the World Bank's database covered the debt stock of 128 countries and the debt flow of 127 countries. The countries covered in the World Bank publication *International Debt Statistics* are developing countries that are members of and borrowers from the World Bank and have per capita GNI below the World Bank threshold for high income per capita GNI, which was $12,276 in 2011 and $12,476 in 2012.

34. Some members expressed support for refinements to the debt-burden adjustment on the basis of technical merit and the improved availability of data. They noted that data availability constraints are no longer a technical obstacle to using public rather than total external debt data or switching from the debt-stock to the debt-flow approach. Those members viewed such changes as technical enhancements to the current methodology. In their view, the debt-flow approach takes into account actual transactions of debt repayment, which is therefore a better representation of the economic reality. If debt repayment is to be considered a burden, then that would support taking actual repayment into account. Those members also felt that paragraph 7 of resolution 67/238 supports the implementation of such refinements, which would better reflect capacity to pay.

35. Conceptually some members also disputed that all debt is a burden, as assumed by the current methodology. Those members indicated that a debt burden can arise if the capital from a loan is invested or used to purchase other assets whose value then falls. On the other hand, if the value of an asset rises, then there is a financial benefit. Those members also pointed out that one rationale for the introduction of the debt-burden adjustment in 1986 was to provide relief to those countries whose asset values had fallen very sharply as a result of the debt crisis at that time, but who retained their repayment liabilities. They noted that such extreme conditions were not currently applicable to all 128 countries that are currently subject to the debt-burden adjustment, although arguably they do apply to some countries not currently included in the World Bank's dataset.

36. Other members considered that the adjustment was an essential part of the methodology in determining the capacity of many Member States to pay, and that it should therefore be retained in its present form. They argued that the debt-burden adjustment was necessary for measuring the real capacity of Member States to pay,

bearing in mind that there were still a number of heavily indebted Member States. They also expressed the view that since the GNI calculation takes into account private and public sources of income, total debt should be retained in the debt-burden adjustment calculation. They considered that the adjustment should continue to be part of the methodology, reflecting an important factor in the capacity of Member States to pay. Those members also expressed the view that the use of total debt stock was necessary, as total external debt reflected capacity to pay, and that private debt represented an important component of the total debt stock, influencing the overall capacity of Member States to pay. They also noted that the debt-stock adjustment is of better service to Member States most in need of relief, those that over time have not been able to make repayments and therefore have not been able to reduce their external debt.

37. Some members of the Committee noted that the current treatment of the debt-burden adjustment in the scale methodology was not even-handed, since it takes into account external debt only on a gross basis. Logically, external debt should be taken into account on a net basis, as any amount lent by a country to another country should be treated as a resource, much in the same way as any amount borrowed by it is treated as a burden. The debt-burden adjustment on a net basis will be studied in future sessions upon receipt of relevant information provided by the Statistics Division. The Committee, however, noted the initial finding of the Statistics Division that net debt data are not currently available.

38. The Committee noted that the total redistribution of points at the debt-burden adjustment stage for the 2013-2015 scale was 0.546 percentage points. The size of the redistribution has been decreasing over time. Some members pointed out, however, that the updated scale, including data available in December 2012 for the 2006-2011 period, indicated a renewed increase in the size of redistribution.

39. **The Committee decided to further consider the question of the debt-burden adjustment at future sessions in the light of guidance from the General Assembly.**

**(b) Low per capita income adjustment**

40. The Committee recalled that the low per capita income adjustment had been an important element of the scale methodology since the earliest days of the United Nations, and that it had been used in the preparation of the first scale of assessments. Per capita income can be defined as GNI divided by the number of residents in a country.

41. The adjustment currently has two parameters: a threshold level of per capita GNI to determine which countries would benefit; and a gradient to set the size of the adjustment. Since the adoption of the 1995-1997 scale, the threshold, which had previously been a fixed dollar amount, has been the average per capita GNI for the membership. The gradient had grown over the years, from 40 per cent in 1948 to 85 per cent in 1983. Since the calculation of the scale for the 1998-2000 period, the gradient has been fixed at 80 per cent.

42. The Committee recalled that its terms of reference, inter alia, called for comparative income per head of population to be taken into account to prevent anomalous assessments resulting from the use of comparative estimates of national income. The Committee agreed that a low per capita income adjustment continued

to be needed in the scale methodology. The total redistribution of points at the low per capita income adjustment stage for the 2013-2015 scale was 9.739 percentage points. The size of the redistribution has been increasing over time. Some members pointed out that the scale updated with data available in December 2012 for the 2006-2011 period indicated a further increase in the size of redistribution.

43. The Committee considered various options for revising the low per capita income adjustment, some of which had previously been considered and reported to the General Assembly, while some were new or variations of previous proposals.

44. Some members noted that the low per capita income adjustment threshold, which is measured as the average GNI per capita for the world, had risen rapidly in recent years. This reflected the fact that income levels throughout the world had been tending towards increase. Those members noted that the distribution of these income gains mattered when it came to the low per capita income adjustment threshold. Under the current methodology, the threshold could rise if the average income of those above the threshold increased and/or if the incomes of those countries below the threshold increased. This latter point meant that as the situation of low-income countries improved, they would push up the threshold, delaying the point at which they graduated above it. Some Committee members argued that this created a distortion in the methodology and suggested that changes to the threshold should reflect only the rise in the average income of those countries above the threshold — the low per capita income adjustment absorbers. To address this inconsistency, some members suggested that the threshold should grow in line with the average GNI per capita of the absorbers only, rather than the world average. This would imply that in periods where high-income countries are growing faster than lower-income countries, the threshold would increase more rapidly than under the current system, thus providing more relief to those below the threshold. Equally, when higher-income countries grew less quickly than those below the threshold, the threshold would rise less quickly than under the current system, so that the size of the low per capita income adjustment would fall.

45. The Committee revisited its consideration of the alternative approach based on an inflation adjusted threshold. The low per capita income adjustment threshold would be fixed in real terms instead of setting it at the current average world per capita income for the scale base period. For example, the average per capita GNI of a specific reference year could be used, but it could be updated according to the world inflation rate in order to keep its real value constant over time. In that way, a country's individual position with respect to the low per capita income adjustment threshold would be rendered independent of the performance of other countries.

46. Another modification discussed by the Committee was the calculation of the low per capita income adjustment threshold based on the world average per capita debt-adjusted GNI, instead of the unadjusted per capita GNI used in the current methodology. This would remove the asymmetry of comparing the debt-adjusted GNI of Member States against an adjustment threshold based on the unadjusted GNI. Some members felt that this would be a fairer and more consistent approach. Those members also noted that the threshold based on the average per capita GNI was inconsistent with the classification used for the debt-burden adjustment, which was based on the World Bank Debtor Reporting System.

47. One member proposed a limit on the absorption of points through the introduction of a limit on the gap between each Member State's assessment rate and

its share in world GNI. Under the proposal, a Member State's assessment rate would be capped at a maximum of 10 per cent above its share in world GNI. Other members did not support this proposal as it would limit the relief provided through the debt-burden and low per capita income adjustments introducing significant changes in the rates of assessment of Member States. One member proposed that the proposal be considered in conjunction with the subject of the restoration of the application of the scheme of limits.

48. One member supported the consideration of enhancing the element through increasing the gradient from 80 per cent to 85 per cent. The member also pointed out that double standards had been used during the discussion of the methodology, and the low per capita income adjustment had been singled out.

49. One member stated that in recent years the level of the threshold had been increasing while the gradient remained at 80 per cent, and that thus more countries were becoming beneficiaries, at the cost of the absorbing countries. There were other problems, including discontinuity and large scale-to-scale increases, although they were built-in mechanisms of the low per capita income adjustment itself. In order to address those problems, that member suggested the following measures:

(a) Introduction of an annual recalculation;

(b) Application of alternative low per capita income adjustment thresholds, for instance one based on world median per capita GNI;

(c) Introduction of a neutral zone threshold methodology, whereby the upper threshold would be $1,000 above the world average per capita GNI and the lower, $1,000 less. In that way, a neutral zone of $2,000 would be created, under which no Member State would absorb or receive points.

50. While some members supported the creation of a neutral zone, others expressed reservations about the introduction of more thresholds in this element of the methodology in order to establish such a zone, as it would lead to even sharper scale-to-scale increases for Member States passing the new upper threshold. Other members expressed reservations about the introduction of an annual recalculation.

51. Other members proposed the introduction of an annual recalculation or a redefining of the threshold based on the World Bank definition of low- or lower-middle-income countries.

52. Some members expressed support for these approaches as they would appropriately address technical inconsistencies in the existing methodology and redress the adverse effect on absorbing countries, while others expressed disagreement, noting that some of the suggested approaches would lead to further instability and unpredictability in the scale of assessments.

53. Some members supported an increase in the gradient from 80 per cent to 85 per cent, taking into consideration the significant increase in the contributions of the developing countries. Other members were of the view that the setting of the gradient constituted a subjective decision to be taken by the General Assembly.

54. Some members of the Committee expressed the view that the low per capita adjustment was working well as part of the overall methodology and should be retained as currently formulated. Those members noted that the per capita GNI of many countries had increased over time, and that such countries received lower

adjustments. Furthermore, some countries that had crossed the threshold no longer received any adjustment and now paid for the benefits of those below the threshold. They expressed their support for the continued use of the average per capita GNI for the membership in establishing the threshold. Those members also pointed to the significant changes in the latest scale of assessments, which included increases for many developing countries. They emphasized that changes to the low per capita income adjustment should be a technical enhancement to the methodology as a whole, not a change solely designed to lessen the absorption of the burden on those above the threshold.

55. **The Committee decided to further consider the low per capita income adjustment in the light of guidance from the General Assembly.**

### 3. Floor

56. The minimum assessment rate, or floor, has been an element of the scale methodology from the outset. The setting of the floor is a subjective decision to be taken by the General Assembly. Since 1998, the floor had been reduced from 0.01 per cent to 0.001 per cent. In the scale of assessments for the 2013-2015 period, 30 Member States, of which 17 were included in the list of the least developed countries, were raised to the floor.

57. Member States at the floor (0.001 per cent) were assessed $25,483 for the regular budget for 2013. As in the past, the Committee continued to view the floor rate of 0.001 per cent as the practical minimum contribution that Member States should be expected to make to the Organization.

58. **The Committee decided to further consider the question of the floor at future sessions in the light of guidance from the General Assembly.**

### 4. Ceilings

59. The Committee recalled that the current methodology included a maximum assessment rate, or ceiling, of 22 per cent and a maximum assessment rate for the least developed countries, or least developed countries ceiling, of 0.010 per cent. The setting of both ceilings is a subjective decision to be taken by the General Assembly.

60. The maximum ceiling had been part of the scale methodology from the outset. The size of the redistribution had been decreasing over time. The total redistribution of points for the 2013-2015 scale was 5.622. Some members pointed out that the scale updated with data available in December 2012 for the 2006-2011 period indicated a further decrease in the size of the related redistribution.

61. The least developed countries ceiling had applied to 7 of the 49 least developed countries for the 2013-2015 scale of assessments.

62. **The Committee decided to further consider the question of the ceilings at future sessions in the light of guidance from the General Assembly.**

## B. Other suggestions and other possible elements for the scale methodology

### 1. Annual recalculation

63. Annual recalculation is the updating of relative income shares before the second and third years of each scale period, involving the replacement of data for the first year of the base period(s) with newly available data for the year following the initial base period(s). In the case of the scale for the 2013-2015 period, for example, for which the base periods were 2005-2010 and 2008-2010, data for 2011 would replace both data for 2005 in the six-year base period and for 2008 in the three-year base period. Based on these recalculated income shares and the established scale methodology, the scale for 2014 would be adjusted accordingly. Similarly, for 2015, the scale would be adjusted by replacing data for 2006 and data for 2009 in the six-year base period and three-year base period with data for 2012.

64. The Committee recalled that it had first considered the proposal for automatic annual recalculation of the scale in 1997, and had revisited it several times since.

65. In reviewing this issue at its present session, some members pointed out that, based on the Committee's review of the updated statistical information, annual recalculation was technically possible. Those members pointed out that with annual recalculation, the scale would be based on the most up-to-date data available, which would better approximate the current capacity of Member States to pay, bearing in mind paragraph 7 of resolution 67/238. Annual recalculation would also help to address discontinuity and would smooth out large scale-to-scale increases. Furthermore, annual recalculation would allow for newly available statistical data to be taken into account in the scale of assessments, including data from more recent years, data revisions to past years and the submission of extra information from individual Member States. In their view, these benefits outweighed any potential drawbacks.

66. Other members did not support the idea of annual recalculation. They supported the maintenance of current arrangements, which are reflected in rule 160 of the rules of procedure of the General Assembly, to the effect that the scale of assessments, once fixed by the Assembly, should not be subject to a general revision for at least three years unless it was clear that there had been substantial changes in relative capacity to pay. Those members considered that it would make the annual assessments of Member States less stable and predictable, and would affect international organizations that utilized the scale of assessments. It was also noted that annual recalculation might lead to annual renegotiation of the scale of assessments. They also noted that additional costs may arise, depending on the length of the Committee's annual session and the required arrangements for servicing the Committee and the Assembly. Such costs would need to be considered in accordance with rule 153 of the rules of procedure of the Assembly. Some members noted that the change of the assessment rates on a yearly basis could present difficulties for a number of Member States which would need to allocate appropriate resources in their national budgets.

67. The main potential benefits and drawbacks of annual recalculation are outlined below.

| *Benefits* | *Drawbacks* |
|---|---|
| Better approximation of the current capacity of Member States to pay, as each year the scale would be based on the most up-to-date data available | Annual assessments of Member States could be less stable and predictable, and the formulation of national budgets more complicated |
| Minimize the impact of the two-year time lag in data collection | Peacekeeping assessments would be issued only to the end of the calendar year (that is, for a maximum of 6 months); consequential impact on the Organization's short-term cash flow; administrative consequences (such as additional assessments and reports) |
| May help in some cases to address the issue of large scale-to-scale increases by smoothing out adjustments annually over the three-year period | May pose problems for some international organizations using the United Nations scale of assessments since they are having a lag of one year in the implementation of the United Nations scale of assessment |
| Updated scale of assessments could take into account any newly available statistical information (not available when the scale was reviewed) | Implications would depend, in part, upon such decisions as the length of the Committee's annual session, the degree of delegation to the Committee, and other work modalities, besides the possible need to amend rule 160 of the rules of procedure of the General Assembly |

68. **The Committee decided to further study the question of annual recalculation at future sessions in the light of guidance from the General Assembly.**

### 2. Large scale-to-scale increases in rates of assessment and discontinuity

69. The Committee recalled that the General Assembly, in its resolution 61/237, had noted that the application of the current methodology had led to substantial increases in the rate of assessment of some Member States, including developing countries.

70. Some members of the Committee supported the idea of introducing changes to the methodology to mitigate large scale-to-scale increases, for example the introduction of a maximum increase of 100 per cent. Another suggested approach was to spread out large increases over several years so that a Member State could transition to the new rate gradually over the three years of the scale period.

71. Other members expressed reservations about introducing such proposals to the scale methodology, as any new measure could become a source of additional

discontinuity. They pointed out that in many cases changes in rates of assessment were the result of real growth and changes in the capacity to pay. Those members also noted that Member States moving up from the floor would inevitably have an increase of at least 100 per cent.

72. Some members noted that discontinuity is a structural element of the scale methodology, suggesting that, in order to address the matter, the low per capita income adjustment be distributed indirectly to all Member States instead of directly only to those above the threshold. These members also expressed the view that annual recalculation was consistent with the principle of capacity to pay, and that it was a logical solution to the problem of large scale-to-scale increases.

73. **The Committee decided to further study measures to deal with discontinuity and large scale-to-scale increases in the light of guidance from the General Assembly.**

# Chapter IV
## Multi-year payment plans

74. In paragraph 1 of its resolution 57/4 B, the General Assembly endorsed the conclusions and recommendations of the Committee concerning multi-year payment plans (see also A/57/11, paras. 17-23), and in its resolution 67/238, the Assembly reaffirmed that endorsement.

75. In considering the matter, the Committee had before it the report of the Secretary-General on multi-year payment plans (A/68/68), prepared pursuant to the recommendations of the Committee. It was also provided with updated information on the status of the plans. No new multi-year payment plans had been submitted.

76. The Committee recalled that a number of Member States had successfully implemented multi-year plans in the past. Given this successful experience, the Committee continued to believe that the system of multi-year payment plans remained a viable means available to assist Member States in reducing their unpaid assessed contributions and demonstrating their commitment to meeting their financial obligations to the United Nations.

77. The Committee also recalled its recommendation that the General Assembly encourage other Member States in arrears, for the purpose of the application of Article 19 of the Charter of the United Nations, to consider submitting multi-year payment plans. In this context, some members emphasized that regular payments equal to at least the annual assessment were an important initial step in addressing the situation of Member States in arrears.

## A. Status of payment plans

78. The table under paragraph 15 of the report of the Secretary-General on multi-year payment plans (A/68/68) summarizes the status of the remaining payment plan covered as at 31 December 2012. This is the multi-year payment plan submitted by Sao Tome and Principe in 2002. The Committee was also provided with updated information relating to the plan as at 21 June 2013.

**Status of payment plan as at 21 June 2013**
(United States dollars)

| | *Payment plan* | *Assessments as at 31 December* | *Payments/credits* | *Outstanding as at 31 December* |
|---|---|---|---|---|
| **Sao Tome and Principe** | | | | |
| 1999 | | | | 570 783 |
| 2000 | | 13 543 | 48 | 584 278 |
| 2001 | | 14 254 | 157 | 598 375 |
| 2002 | 27 237 | 15 723 | 29 146 | 584 952 |
| 2003 | 42 237 | 17 124 | 929 | 601 147 |
| 2004 | 59 237 | 20 932 | 1 559 | 620 520 |
| 2005 | 74 237 | 24 264 | 202 | 644 582 |
| 2006 | 89 237 | 23 024 | 453 | 667 153 |

| | *Payment plan* | *Assessments as at 31 December* | *Payments/credits* | *Outstanding as at 31 December* |
|---|---|---|---|---|
| 2007 | 114 237 | 32 524 | 810 | 698 867 |
| 2008 | 134 237 | 30 943 | 473 | 729 337 |
| 2009 | 153 752 | 35 400 | 682 | 764 055 |
| 2010 | | 35 548 | 356 | 799 247 |
| 2011 | | 37 034 | 506 | 835 775 |
| 2012 | | 29 713 | 2 193 | 863 295 |
| 2013 | | 30 260 | – | 893 555 |

79. The Committee reiterated its observation that the plan was in need of review by Sao Tome and Principe.

## B. Conclusions and recommendations

80. **The Committee noted that no new multi-year payment plans had been submitted, and reiterated its recommendation that the General Assembly encourage those Member States in arrears under Article 19 of the Charter to consider submitting multi-year payment plans.**

# Chapter V

## Application of Article 19 of the Charter of the United Nations

81. The Committee recalled its general mandate, under rule 160 of the rules of procedure of the General Assembly, to advise the Assembly on the action to be taken with regard to the application of Article 19 of the Charter. It also recalled Assembly resolution 54/237 C, concerning procedures for the consideration of requests for exemption under Article 19.

82. The Committee recalled that the General Assembly, in its resolution 54/237 C, had decided that requests for exemption under Article 19 must be submitted by Member States to the President of the Assembly at least two weeks before the session of the Committee, so as to ensure a complete review of the requests. In addition, the Assembly had urged all Member States in arrears requesting exemption under Article 19 to provide the fullest possible supporting information, including information on economic aggregates, government revenues and expenditure, foreign exchange resources, indebtedness, difficulties in meeting domestic or international financial obligations and any other information that might support the claim that failure to make necessary payments had been attributable to conditions beyond the control of the Member States. Most recently, the Assembly, in its resolution 67/2, once again urged all Member States requesting exemption to submit as much information as possible, in advance of the deadline specified in resolution 54/237 C.

83. The Committee noted that five requests for exemption under Article 19 had been received, the same number as had been considered in 2012.

84. In reviewing the five requests for exemption under Article 19, the Committee recognized the continued difficult situation of the Member States concerned. Requests from these Member States had also been received in 2012. The Committee noted the continuing increase in the accumulations of arrears of those Member States, all of which had fallen under Article 19 consecutively for more than two decades.

| *Member State* | *Number of years consecutively falling under Article 19* | *Number of years consecutively requesting an exemption under Article 19* |
|---|---|---|
| Central African Republic | 26 | 11 |
| Comoros | 21 | 19 |
| Guinea-Bissau | 21 | 16 |
| Sao Tome and Principe | 26 | 12 |
| Somalia | 21 | 12 |

85. **The Committee emphasized that Member States should submit the fullest possible information in support of requests for exemption under Article 19. The Committee encouraged Member States to consider the submission of a multi year payment plan and to consult with the Secretariat. In addition, attempts should be made by those Member States to address the growth in arrears by making annual payments exceeding current assessments in order to avoid further accumulation of debt.**

## A. Central African Republic

86. The Committee had before it a letter dated 20 May 2013 from the President of the General Assembly to the Chair of the Committee on Contributions, transmitting a letter dated 16 May 2013 from the Permanent Representative of the Central African Republic to the United Nations addressed to the President of the General Assembly. It also heard an oral presentation by the Permanent Representative.

87. In its written and oral presentations, the Central African Republic indicated that, since December 2012 and subsequent developments during 2013, the country had been facing a serious crisis. The humanitarian situation, already difficult, was getting worse. Gross human rights violations, including sexual violence against women and children, had been committed. More than 80,000 people were estimated to be at risk of severe food insecurity. Schools were closed or occupied and teachers absent, and at least 656,000 children currently had no access to education. The country lacked stability, which was seriously threatened by rampant insecurity. In addition to the current situation, the consequences of the preceding years of crisis remained part of the social and economic life of the country. The economy of the country remained vulnerable to various domestic and external shocks and the State's capacity to meet its debt payments remained weak. As a result, the levels of foreign investment remained low and the country was still reliant on aid. The Central African Republic was committed to the payment of its contributions to the United Nations, was making efforts to reduce its unpaid assessed contributions and was keeping the issue of multi-year payment plans under continuous consideration. As the country's situation normalizes, it would establish such a plan as a matter of priority.

88. The Committee was provided with information by the Secretariat concerning the situation in the Central African Republic, where, over the past few months, the political and security situation had dramatically deteriorated. The recent crisis had dismantled the already weak national security and defence structures. The overall situation in the country was highly volatile and the transition process was fragile. The country continued to experience difficulties in overcoming its numerous challenges, ranging from rampant insecurity, a dire human rights and humanitarian situation, political instability and a lack of State institutions. The latest crisis had exacerbated an already very difficult humanitarian situation, leading people to flee their homes from a number of areas, with more than 206,000 internally displaced persons and nearly 55,000 refugees seeking safety in neighbouring countries. Humanitarian access was difficult owing to insecurity and limited road networks. Over the past two decades, the Central African Republic had faced political, economic, social and armed conflicts that had weakened public and private institutions and led to the destruction of its economic and social infrastructure, as well as a general deterioration of the living standards of the population. The recent developments and subsequent violence had had a serious effect on the national economy.

89. The Committee noted that the accumulated contributions due from the Central African Republic amounted to $271,482 and that a minimum payment of $168,551 was required under Article 19. The last payment from the Central African Republic had been received in October 2012. The Committee recognized the great efforts made by the Central African Republic to make the payment of $160,000, equivalent to more than six times its annual contribution to the regular budget. The Committee

encouraged these efforts and welcomed the indication from the Central African Republic that it would continue to consider a multi-year payment plan and would reduce its unpaid assessed contributions as soon the country's situation normalizes.

90. **The Committee concluded that the failure of the Central African Republic to pay the minimum amount necessary to avoid the application of Article 19 was due to conditions beyond its control. It therefore recommended that the Central African Republic be permitted to vote until the end of the sixty-eighth session of the General Assembly.**

## B. Comoros

91. The Committee had before it a letter dated 7 May 2013 from the President of the General Assembly to the Chair of the Committee on Contributions, transmitting a letter dated 29 April 2013 from the Permanent Representative of the Comoros to the United Nations addressed to the President of the General Assembly. It also heard an oral presentation by the Permanent Representative.

92. In its written and oral presentations, the Comoros indicated that the country had suffered a major blow from the economic, financial and food crises that had swept the world in recent years. Despite the Government's efforts to mitigate the devastating economic, social and environmental impact of the crisis, the economic situation in the country remained very fragile. The slump in sales of its exports (vanilla, cloves and ylang-ylang) and the decline in diaspora remittances, which were a source of foreign exchange for the country, had thwarted the efforts towards the country's economic and social recovery. The policy of revitalizing tourism, one of the country's priority sectors, by redeveloping the hotel and tourism infrastructure, the reorganization of what was deemed a bloated civil service, the recent attainment of the completion point under the Heavily Indebted Poor Countries Initiative and the Government's determination to carry out reforms were all encouraging signs that give reason to hope for the country's economy's resurgence. The Comoros would spare no effort in fulfilling its obligations, and it intended to submit a payment plan to the Organization as soon as possible in order to settle its arrears.

93. The Committee was provided with information by the Secretariat concerning the situation in the Comoros. Overall, the country appeared to have made some progress towards the consolidation of its democracy. The peaceful presidential and gubernatorial elections held in December 2010 could be regarded as a major political milestone in the archipelago's democratic process. However, while the political situation in Comoros appeared to be stable on the surface, the potential for renewed strife remained high. Comoros was prone to natural disasters (floods, cyclones, volcanic eruptions and earthquakes) and outbreaks of diseases. In 2012, the entire territory had been hit by flash floods, landslides and rockslides as a result of torrential rainfall. The Government had declared a national state of emergency calling for international assistance to cover the needs of the flood-affected victims. In 2013, early in May, heavy rains had caused flooding. As a result, exports would likely diminish as vanilla producers have suffered extensive crop loss in the affected areas. The economy was characterized by limited resources, a small domestic market, weak institutional capacity and a narrow export base, which make it

particularly vulnerable to external shocks. The production of food crops and fishing for local consumption remained underdeveloped.

94. The Committee noted that the accumulated contributions due from the Comoros amounted to $938,868 and that a minimum payment of $835,938 was required under Article 19. The last payment from the Comoros was received in September 2012. The Committee noted this payment, which demonstrated the commitment of the Comoros to reduce its arrears. The Committee encouraged these efforts and also welcomed the indication that the Comoros would keep the issue of a multi-year payment plan under consideration, with a view to establishing such a plan as a matter of priority as the country's situation normalized.

95. **The Committee concluded that the failure of the Comoros to pay the minimum amount necessary to avoid the application of Article 19 was due to conditions beyond its control. It therefore recommended that the Comoros be permitted to vote until the end of the sixty-eighth session of the General Assembly.**

## C. Guinea-Bissau

96. The Committee had before it a letter dated 13 May 2013 from the President of the General Assembly to the Chair of the Committee on Contributions transmitting a letter dated 10 May 2013 from the Permanent Representative of Guinea-Bissau to the United Nations addressed to the President of the General Assembly.

97. In its written and oral presentation, Guinea-Bissau indicated that the country was still confronting enormous economic and financial challenges, especially after experiencing another coup d'état on 12 April 2012, which had made it more difficult for the country to pay the full minimal amount of its contributions in a timely fashion. The absence of direct financial assistance from the country's major international partners since the coup had negatively affected the already precarious economic situation, making it impossible for the transitional Government to meet its responsibilities, even the payment of salaries to its civil servants. With the trade in cashew nuts, a main export crop for Guinea-Bissau, at its lowest level ever, the socioeconomic situation and the living conditions of the population had been seriously affected. The financial constraints faced by the transitional Government continued to worsen. As the situation in the country normalizes, the Government would make all efforts necessary to reduce its debt to the Organization as soon as possible.

98. The Committee was provided with information by the Secretariat concerning the situation in Guinea-Bissau. The overall political situation in the country remained tense after the coup d'état of 12 April 2012, which had taken place at a time when the country was beginning to show signs of economic recovery. While Guinea-Bissau was not facing any major acute humanitarian crisis, the political crisis following the April 2012 coup d'état had had immediate negative consequences on the socioeconomic situation in the country. The economic environment had deteriorated, owing mainly to repercussions of the coup d'état, reduced cashew exports and depressed prices, a significant decline in public investment and negative impact on the construction sector, as well as a slowdown in the service sector. After nearly a decade of conflict and political instability, Guinea-Bissau remained a fragile State, with major development challenges. Restoring a

measure of stability would depend upon holding transparent and credible elections and reinforcing civilian control over the military. The security situation remained stable, albeit volatile, owing to continuing political and social tensions. Since February 2013, the country had been afflicted by strikes that had disrupted the education, finance, health and justice sectors as trade unions demanded better working conditions and the payment of long-standing subsidies.

99. The Committee noted that the accumulated contributions due from Guinea-Bissau amounted to $609,540 and that a minimum payment of $506,610 was required under Article 19. The last payment from Guinea-Bissau was received in September 2009. The Committee expressed its appreciation for the efforts made by Guinea-Bissau to address its arrears and encouraged it to resume payment and to consider submitting a multi-year payment plan. Payments should exceed current annual assessments in order to gradually reduce the country's arrears.

100. **The Committee concluded that the failure of Guinea-Bissau to pay the minimum amount necessary to avoid the application of Article 19 was due to conditions beyond its control. It therefore recommended that Guinea-Bissau be permitted to vote until the end of the sixty-eighth session of the General Assembly.**

## D. Sao Tome and Principe

101. The Committee had before it a letter dated 13 May 2013 from the President of the General Assembly to the Chair of the Committee on Contributions transmitting a letter dated 9 May 2013 from the Chargé d'affaires a.i. of the Permanent Mission of Sao Tome and Principe to the United Nations addressed to the President of the General Assembly. It also heard an oral presentation by a representative of Sao Tome and Principe.

102. In its written and oral presentations, Sao Tome and Principe indicated that, despite all of the efforts made by the Government, owing to deep poverty and high debt per capita, the economic situation was still fragile. As was the case of most of the least developed countries, the servicing of the foreign debt of Sao Tome and Principe remained a problem and the balance of payments was significantly negative. In the current circumstances, Sao Tome and Principe was still facing a series of social and economic challenges that had created hardships and serious difficulties for the population. Moreover, the opportunity that oil production was supposed to create had not yet materialized. Oil production was not expected to produce any income until 2016. Furthermore, owing to the global economic crisis, official development assistance to the country was decreasing. The Government of Sao Tome and Principe was aware of its obligation to meet its financial responsibilities towards the Organization and, in this regard, was doing everything possible to fulfil its obligation.

103. The Committee was provided with information by the Secretariat concerning the situation in Sao Tome and Principe. The political situation in the country remains extremely volatile. In spite of recent political and democratic progress, the risk of social instability in the country was high, as the rising cost of living and delays in the start of offshore oil production, which was expected to significantly improve the population's standard of living, have generated impatience. The small size of the country, its insularity and its strong dependence on external aid were

among the factors that made the economy highly vulnerable to different types of hazards. While the country was not facing any acute humanitarian crisis, it was prone to natural disasters, including floods and landslides. The country had a narrow production and export base. The most important export, cocoa, remained at a modest level, and tourism, though growing, was still limited. While there had been some efforts in the agricultural sphere over the past few years, domestic food production was still inadequate to meet local consumption. Despite the relatively good macroeconomic performance achieved over the past six years, Sao Tome and Principe remained one of the poorest countries in the world.

104. The Committee noted that the accumulated contributions due from Sao Tome and Principe amounted to $893,555 and that a minimum payment of $790,624 was required under Article 19. The last payment from Sao Tome and Principe had been received in October 2002. The Committee recalled that Sao Tome and Principe had submitted a multi-year payment plan in 2002, with annual payments planned over the period from 2002 to 2009. No payments had been received since the first payment in 2002. The Committee noted that, based on the GDP growth rate and other indicators, the situation of Sao Tome and Principe was relatively better than other countries requesting an exemption under Article 19. **While the Committee recognized the commitment Sao Tome and Principe had made in submitting a multi-year payment plan, it reiterated that the plan should be reviewed and its terms revised as soon as possible. The Committee urged Sao Tome and Principe to begin to make payments in order to gradually reduce its arrears and demonstrate its commitment to meet its obligations.**

105. **The Committee concluded that the failure of Sao Tome and Principe to pay the minimum amount necessary to avoid the application of Article 19 was due to conditions beyond its control. It therefore recommended that Sao Tome and Principe be permitted to vote until the end of the sixty-eighth session of the General Assembly.**

## E. Somalia

106. The Committee had before it a letter dated 13 May 2013 from the President of the General Assembly to the Chair of the Committee on Contributions transmitting a letter dated 8 May 2013 from the Permanent Representative of Somalia to the United Nations addressed to the President of the General Assembly. It also heard an oral presentation by the Permanent Representative.

107. In its written and oral presentations, Somalia indicated that, since the 1990s, the country had endured serious internal conflict, which had created financial crises and grave economic difficulties. While modest progress had been made since 2008, the Government of Somalia faced tremendous challenges: weak transitional federal institutions and structures; and a lack of adequate resources for the Government to be fully responsible for the security of its citizens and to deal with the acute humanitarian and economic crisis. Of the entire population, 2.4 million Somalis, or 32 per cent, were in need of humanitarian assistance and livelihood support as a result of the ongoing conflict, drought and food insecurity. The combination of increasing conflict and drought had led to an increase in population movement and displacement. The nutrition situation had been classified by United Nations agencies as critical or very critical in most areas of southern Somalia, owing to poor access to

food. Morbidity rates have been high because of the low prevalence of health interventions. The Government will make all necessary payments as soon as the financial and security situation of the country changes for the better. Notably, there had recently been very encouraging signs of progress, and it was hoped that the country could begin to take steps in the coming year towards meeting its financial obligations to the United Nations.

108. The Committee was provided with information by the Secretariat concerning the situation in Somalia. The past year had been a momentous one for the country, which had pursued progress towards a road map to end the eight-year political transition that was successfully concluded on 20 August 2012 with the inauguration of the new Somali Federal Parliament. The inauguration had ushered in a period of opportunity and great optimism in Somalia, characterized as the best chance in a generation for sustainable peace. While there had been significant security gains, the national security forces remained overstretched and lacking in capacity to assure civilian security in much of the country. Additional assistance was needed to build the capacity of national security institutions and to promote the development of the rule of law and peacebuilding activities. The Government was working to improve its revenue collection systems through the registration of businesses, the empowerment of the central bank, tax awareness campaigns and the consolidation of tax collection bodies, among other measures. Despite improvements in the humanitarian situation over the past year, humanitarian needs remained significant, with 2.7 million Somalis still in need of assistance. Somalia remained one of the biggest humanitarian challenges in the world owing to the persistence of conflict and recurrent drought.

109. The Committee noted that the accumulated contributions due from Somalia amounted to $1,321,886 and that a minimum payment of $1,218,954 was required under Article 19. The last payment from Somalia was received in October 1989.

110. **The Committee concluded that the failure of Somalia to pay the minimum amount necessary to avoid the application of Article 19 was due to conditions beyond its control. It therefore recommended that Somalia be permitted to vote until the end of the sixty-eighth session of the General Assembly.**

# Chapter VI
# Other matters

## A. Request by a Member State for a change of assessment

111. The Committee had before it the text of a letter dated 19 February 2013 from the Permanent Representative of Iraq to the United Nations addressed to the Chair of the Committee on Contributions in which he formally submitted the appeal of the Government of Iraq under the terms of rule 160 of the rules of procedure of the General Assembly on the rate of assessment for the apportionment of the expenses of the United Nations applicable to Iraq. In his letter, the Permanent Representative referred to his earlier letters, dated 13 and 19 November 2012, addressed to the Chair of the Committee on Contributions, in which he provided information on the external debt of Iraq. It also heard an oral presentation by a representative of Iraq.

112. In its written and oral presentations, Iraq provided data on the volume of Iraqi external debt outstanding at the end of 2010. In addition, information was provided on the average exchange rate of the Iraqi dinar compared to the United States dollar and the average growth in real GDP from 2005 to 2010. Given its financial obligations to outside parties, Iraq requested the reduction of its rate of assessment for the apportionment of the expenses of the United Nations.

113. The Committee recalled that while GNI information had been submitted by Iraq through the national accounts questionnaire, no external debt information had been available at the time of preparation of the scale of assessments for the 2013 2015 period. Information on total external debt and repayments of principal were extracted in most cases from the World Bank database on external debt, as published in the World Bank publication *Global Development Finance*. However, changes in coverage by the World Bank and the Organization for Economic Cooperation and Development had meant that debt data were not available for a number of countries after 2002. In order to prepare the scale of assessments, those countries had been contacted directly and requested to provide the necessary data. In some cases, the assessment rates were at the floor, so the lack of debt data made no practical difference. In the case of Iraq, although the external debt information had been requested, no information had been provided for the Committee's review of the scale of assessments for the 2013-2015 period as at June 2012. The external debt information was made available in November 2012.

114. The Committee reviewed the statistical information provided by Iraq in its presentations and noted that external debt data had been provided only for the single year 2010. While the external debt information now available for 2010 could be used for future scales of assessments, should this information not be available in the World Bank database, Iraq would still need to provide external debt information for other years of the base period. The Committee emphasized the importance of timely submission by countries of all statistical information required to calculate the scale of assessments.

115. The Committee recalled that rule 160 of the rules of procedure of the General Assembly provides that the scale of assessments, once fixed by the Assembly, shall not be subject to a general revision for at least three years unless it is clear that there have been substantial changes in relative capacity to pay.

116. Some members expressed the view that, with annual recalculation of the scale of assessments, the information provided by Iraq could be taken into account. Other members expressed the view that the request of Iraq should not be linked to annual recalculation. It was also noted that, with annual recalculation, all data for all Member States would be updated, which would not necessarily lead to a reduction in the assessment rate of Iraq.

117. Some members noted that the external debt data could be taken into account only for future scales. A few members understood the merits of the request of Iraq and were of the view that the only practical approach to adjusting the current scale of assessments for Iraq would be through the consideration of mitigation through voluntary burden shifting.

118. **Based on its review of the request and the impact on the scale of assessments, the Committee concluded that the question of submission of the external debt data after the preparation of the scale of assessments could not be considered a substantial or extraordinary change in relative capacity to pay.**

119. **The Committee took note of the request and decided to use the external debt information provided by Iraq for the preparation of future scales of assessment.**

## B. Assessment of a non-member State

120. The Committee noted that the General Assembly, in its resolution 67/19, had decided to accord to Palestine non-member observer State status in the United Nations.

121. The Committee recalled that the current assessment procedures for non-member States were based on the recommendations of the Committee, as endorsed by the General Assembly in its resolutions 44/197 B and 58/1 B. Under those procedures, a flat annual fee percentage was applied to a notional assessment rate, based on national income data, and to the net assessment base for the regular budget.

122. Following the admission of Switzerland to membership in the United Nations, the only remaining non-member State had been the Holy See, and the flat annual fee percentage had been fixed at 50 per cent. For the 2013-2015 period, the Holy See contributes towards the expenses of the United Nations at a flat rate of 50 per cent of its notional assessment rate of 0.001 per cent. The Committee decided that the same procedure applied to the Holy See should also be applied to the State of Palestine.

123. On the basis of the available statistical data, the Committee noted that the notional rate of assessment for the State of Palestine would be 0.005 per cent.

124. **The Committee recommended that the flat annual fee percentage of the State of Palestine be fixed at 50 per cent of its notional rate of assessment, fixed at 0.005 per cent for the period 2013-2015. For 2012, based on the date of the change in status, the State of Palestine should pay one-twelfth of that rate.**

## C. Collection of contributions

125. The Committee noted that, at the conclusion of its present session on 21 June 2013, five Member States that were in arrears in the payment of their assessed

contributions under the terms of Article 19 had been permitted to vote in the General Assembly until the end of the sixty-seventh session, pursuant to Assembly resolution 67/2: Central African Republic, Comoros, Guinea-Bissau, Sao Tome and Principe and Somalia. **The Committee decided to authorize its Chair to issue an addendum to the present report, if necessary.**

126. The Committee also noted that, as at 31 May 2013, a total of $2.4 billion was owed to the Organization for the regular budget, peacekeeping operations, the international tribunals and the capital master plan. That amount reflected a decrease compared with the amounts of $2.5 billion and $3.1 billion outstanding as at 31 May 2012 and 31 May 2011, respectively.

## D. Payment of contributions in currencies other than the United States dollar

127. Under the provisions of paragraph 12 (a) of its resolution 64/248, the General Assembly authorized the Secretary-General to accept, at his discretion and after consultation with the Chair of the Committee on Contributions, a portion of the contributions of Member States for the calendar years 2010, 2011 and 2012 in currencies other than the United States dollar.

128. The Committee noted that, in 2012, the Secretary-General had accepted the equivalent of $1,257,290.63 from Morocco in non-United States dollar currencies acceptable to the Organization.

## E. Organization of the Committee's work

129. The Committee wished to record its appreciation for the professionalism and the substantive support for its work performed by the secretariat of the Committee and the Statistics Division. The Committee also expressed its appreciation for the substantive support provided by the Department of Political Affairs, the Office for the Coordination of Humanitarian Affairs and the United Nations Development Programme in its consideration of requests for exemptions under Article 19.

## F. Working methods of the Committee

130. The Committee reviewed its working methods. Members expressed general satisfaction with the working methods and procedures currently in place. Members also noted that the documentation required for the work of the Committee had been made available in a timely manner for review in advance of the session. The Committee decided to continue to review its working methods at future sessions.

## G. Date of the next session

131. **The Committee decided to hold its seventy-fourth session in New York from 2 to 20 June 2014.**

# Annex I

## Outline of the methodology used for the preparation of the United Nations scale of assessments for the period 2013-2015

1. The current scale of assessments was based on the arithmetic average of results obtained using national income data for base periods of three and six years for the periods 2008-2010 and 2005-2010. The methodology used in the preparation of each set of results took as its starting point the gross national income (GNI) of the States Members of the Organization during the respective base periods. This information was provided by the Statistics Division and was based on data provided by Member States in response to the annual national accounts questionnaire. Since figures had to be provided for all Member States for all years of the possible statistical periods, when data were not available from the questionnaire the Statistics Division prepared estimates using other available sources, including the regional commissions, other regional organizations, the World Bank, the International Monetary Fund (IMF) and private sources.

2. The GNI data for each year of the base periods were then converted to a common currency, the United States dollar, in most cases using market exchange rates (MERs). For this purpose, market exchange rates were taken to be the annual average exchange rates between the national currencies and the United States dollar as published in the IMF *International Financial Statistics* or its economic information system. Those sources included three types of rates which, for the purposes of preparing the scale of assessments, were referred to as MERs:

(a) Market rates, determined largely by market forces;

(b) Official rates, determined by Government authorities;

(c) Principal rates, for countries maintaining multiple exchange-rate arrangements.

For States that were not members of IMF, where MERs were not available, United Nations operational rates of exchange were used.

3. As part of its review process, the Committee on Contributions considered whether those exchange rates resulted in excessive fluctuations or distortions in the income of particular Member States, and in a small number of cases decided to use alternative rates. These included price-adjusted rates of exchange (PAREs) supplied by the Statistics Division. The PARE methodology was developed by the Division as a means of adjusting the conversion rates into United States dollars for countries suffering from severe inflation and changes in domestic prices, which cause significant divergence in local currency movements. It is designed to eliminate the distorting effects of uneven price changes that are not well reflected in exchange rates and that yield unreasonable levels of income expressed in United States dollars. PARE rates are derived by extrapolating an average exchange rate for a base period with price changes in the form of implicit price deflators of gross domestic product. In considering the methodology for preparing future scales of assessments at its sixty-fourth and sixty-fifth sessions, the Committee considered a proposed relative PARE methodology, based on inflation rates relative to those of the United States, in whose currency assessments are calculated. The Committee concluded that relative PARE was in general the most technically sound method of adjusting MERs.

4. An average of the annual GNI figures in United States dollars for the base periods was then aggregated with the corresponding figures for other Member States as the first step in the machine scales used for the scale of assessments for the period 2013-2015.

**Summary of step 1**

Annual GNI figures in national currency were converted to United States dollars using the annual average conversion rate (MER or other rate selected by the Committee). The average of these figures was calculated for the base period (three or six years). Thus:

$[(GNI_{year\ 1}/\text{conversion rate}_{year\ 1}) + \ldots\ldots + (GNI_{year\ 6}/\text{conversion rate}_{year\ 6})]/6 =$ average GNI, where 6 is the length of the base period

These average GNI figures were summed and used to calculate shares of GNI. A similar exercise was carried out for the three-year base period.

5. The next step in the scale methodology was the application of the debt-burden adjustment in each machine scale. In its resolution 55/5 B, the General Assembly decided to base this adjustment on the approach employed in the scale of assessments for the period 1995-1997. Under this approach, the debt-burden adjustment is the average of 12.5 per cent of total external debt for each year of the period (what has become known as the debt-stock method), based on an assumed repayment of external debt within eight years. Data for this adjustment came from the World Bank database on external debt, which included countries with a per capita income of up to $12,275 (using the World Bank Atlas conversion rates). The amount of the debt-burden adjustment was deducted from the GNI of those countries affected. The adjustment therefore increased not the absolute but rather the proportionate GNI of the Member States that either did not benefit from it or whose relative adjustment was lower than the amount of the total adjustment as a percentage of total GNI.

**Summary of step 2**

The debt-burden adjustment (DBA) for each base period was deducted to derive debt-adjusted GNI ($GNI_{da}$). This involved deducting an average of 12.5 per cent of the total debt stock for each year of the base period. Thus:

Average GNI - DBA = $GNI_{da}$

Total $GNI_{da}$ = total GNI - total DBA

6. The next step was the application of the low per capita income adjustment in each machine scale. This involved the calculation of the average per capita GNI during each of the base periods for the membership as a whole and the average debt-adjusted per capita GNI for each Member State for each base period. The overall average figures for the current scale were $8,956 for the three-year base period and $8,338 for the six-year base period, and these were fixed as the starting points, or thresholds, for the respective adjustments. The GNI of each country whose average debt-adjusted per capita GNI was below the threshold was reduced by 80 per cent of the percentage by which its average debt-adjusted per capita GNI was below the threshold.

7. For each machine scale, the total amount of the low per capita income adjustment was reallocated to those countries above the threshold, other than the Member State affected by the maximum assessment rate or ceiling, in proportion to their relative shares of the total debt-adjusted GNI of that group. For illustrative purposes, a track 2 calculation was undertaken in which the ceiling country was not excluded from the allocation of the adjustment. This permitted the machine scales considered by the Committee to indicate what the relative assessment rates of Member States would be if the ceiling were not applied.

**Summary of step 3**

The average per capita GNI for each base period was calculated. This was used as the threshold for application of the low per capita income adjustment. Thus:

(total $GNI_{year\ 1}$ + .... + total $GNI_{year\ 6}$)/(total $population_{year\ 1}$ + .... + total $population_{year\ 6}$) = Average per capita GNI for six-year base period

A similar exercise was carried out for the three-year base period.

**Summary of step 4**

The average debt-adjusted per capita GNI for each Member State for each base period was calculated in the same manner as in step 3, using debt-adjusted GNI.

**Summary of step 5**

In each machine scale, the low per capita income adjustment was applied to those Member States whose average debt-adjusted per capita GNI was lower than the average per capita GNI (threshold). This adjustment reduced the affected Member State's average debt-adjusted GNI by the percentage that its average debt-adjusted per capita GNI was below the threshold multiplied by the gradient (80 per cent).

Example: If the average per capita GNI is $5,000 and a Member State's per capita debt-adjusted GNI is $2,000, then the low per capita income adjustment will be [1-(2000/5000)] x 0.80 = 48 per cent, that is, 80 per cent (the gradient) of 60 per cent [1-(2000/5000)], which is the percentage by which the Member State's debt-adjusted per capita GNI is below the threshold.

**Summary of step 6**

In each machine scale, the total dollar amount of the low per capita income adjustments was reallocated pro rata to Member States whose average debt-adjusted per capita GNI was above the threshold. In order to illustrate the outcomes with and without a ceiling scale rate, the following two alternative tracks were applied to this and subsequent steps:

**Track 1**

The total of the low per capita income adjustments was proportionately reallocated to all Member States whose average debt-adjusted per capita GNI was above the threshold, except the ceiling country. Since the ceiling country

would not ultimately share in the reallocation of points arising from the low per capita income adjustment, including it in the reallocation would have the effect of having the beneficiaries of the adjustment share a part of its cost. This would occur when the points added for the ceiling country were reallocated pro rata to all other Member States as part of the reallocation of points arising from application of the ceiling. In machine scales, the results of track 1 calculations appear in the "ceiling" column and subsequent columns, if any.

**Track 2**

The total of the low per capita income adjustments was proportionately reallocated to all Member States whose average debt-adjusted per capita GNI was above the threshold, including the ceiling country. This yielded, for illustrative purposes, scale figures that would have applied if there had not been a ceiling rate of assessment. In machine scales, the results of track 2 calculations appear in the "low per capita income", "floor" and "least developed countries adjustment" columns.

8. Following these adjustments, three sets of limits were applied to each machine scale. Those Member States whose adjusted share was less than the minimum level, or floor, of 0.001 per cent were brought up to that level. Corresponding reductions were applied pro rata to the shares of other Member States, except, under track 1, the ceiling country.

**Summary of step 7**

The minimum assessment rate, or floor (currently 0.001 per cent), was applied to those Member States whose rate at this stage is lower. Corresponding reductions were then applied pro rata to other Member States, except, under track 1, the ceiling country.

9. A maximum assessment rate of 0.01 per cent was then applied for each machine scale to those Member States on the list of the least developed countries. Increases corresponding to this least developed countries ceiling were then applied pro rata to other Member States, except, under track 1, the ceiling country.

**Summary of step 8**

Those least developed countries whose rate at this point exceeded the least developed countries ceiling (0.01 per cent) had their rate reduced to 0.01 per cent. Corresponding increases were applied pro rata to other Member States, except, under track 1, the ceiling country.

10. A maximum assessment rate, or ceiling, of 22 per cent was then applied to each machine scale. Increases corresponding to the resulting reduction for the ceiling country were then applied pro rata to other Member States. As indicated above, those increases were calculated in accordance with track 1, that is, they reflected a distribution of points from the ceiling country that did not include any points arising from the application of the low per capita income adjustment.

**Summary of step 9**

The maximum assessment rate, or ceiling, of 22 per cent was then applied. Corresponding increases were then applied pro rata to other Member States,

except for those affected by the floor and the least developed countries ceiling, using the track 1 approach from step 6 above.

11. An arithmetic average of the final scale figures was then calculated for each Member State, using base periods of three and six years.

**Summary of step 10**

The results of the two machine scales, using base periods of three and six years (2008-2010 and 2005-2010), were added and divided by two.

# Annex II

## Summary of main changes between the 1968 System of National Accounts (SNA), the 1993 SNA and the 2008 SNA having impact on the level of gross domestic product

## I. Main changes in the 1993 SNA from the 1968 SNA

### Further specification of the production boundary for household production activities

The 1993 SNA included all goods produced by households within the production boundary.

The 1968 SNA excluded from the production boundary the production of goods not made from primary products, the processing of primary products by those who do not produce them and the production of other goods by households who do not sell any part of them on the market.

### Allocation of financial intermediation services indirectly measured

The 1993 SNA, in principle, recommended allocation of the consumption of financial intermediation services indirectly measured (FISIM) between users — who could be lenders as well as borrowers — treating the allocated amounts either as intermediate consumption by enterprises or as final consumption or exports.

The 1968 SNA did not recommend allocating the consumption of FISIM to users, instead it was by convention allocated to the intermediate consumption of a nominal industry.

### Inclusion of all illegal production and other transactions

The 1993 SNA made it clear that the illegality of a productive activity or transaction is not a reason for excluding it from the System. Comprehensive coverage of illegal activities is, in principle, essential in order not to introduce errors and imbalances in the accounts (balance supply and use of goods and services in the economy).

The 1968 SNA did not give clear guidance on the coverage of illegal activities.

### Extension of produced assets and gross fixed capital formation to include expenditure on mineral exploration

The 1993 SNA recommended treating expenditures on mineral exploration as gross fixed capital formation resulting in the creation of an intangible fixed asset under produced assets. All expenditures were recommended to be included, no matter whether the exploration was successful or not.

The 1968 SNA treated expenditures on mineral exploration as intermediate consumption.

**Extension of produced assets and gross fixed capital formation to include expenditure on computer software**

The 1993 SNA treated systems and standard applications computer software that a producer expects to use in production for more than one year as an intangible fixed asset no matter whether the computer software was purchased in the market — separately or together with the hardware or developed in-house. It also includes databases which the enterprise expects to use for more than one year.

The 1968 SNA was interpreted as treating expenditures on software which was bought as an integral part of a major hardware purchase as gross fixed capital formation, but software purchased or developed independently was treated as intermediate consumption.

**Extension of produced assets and gross fixed capital formation to include expenditure on literary or artistic works**

The 1993 SNA included in output literary or artistic works (i.e., the writing of books, composing music, etc.) which are produced for sale whether they are produced by employees or by self-employed workers. Furthermore, it recognized that these outputs can contribute to production in subsequent periods and, therefore, treated expenditures on these outputs as gross fixed capital formation resulting in the creation of an intangible fixed asset. Consequently, fees, commissions, royalties, etc. stemming from licensing others to make use of the works was treated as payments for services rendered.

The 1968 SNA treated copyrights as non-financial non-produced intangible assets giving rise to property income.

**Extension of government gross fixed capital formation to include expenditure by the military on structures and equipment, except weapons**

The 1993 SNA treated as gross fixed capital formation all expenditures by the military on fixed assets of a kind that could be acquired by civilian users for purposes of production and that the military use in the same way; this would include airfields, docks, roads, hospitals and other buildings or structures. On the other hand, military weapons, and vehicles and equipment whose sole purpose is to launch or deliver such weapons, were not to be treated as gross fixed capital formation but as intermediate consumption.

The 1968 SNA excluded from gross fixed capital formation almost all military expenditures except those on construction or alteration of family dwellings for personnel of the armed forces.

**Extension of government inventories to include all goods held in inventories**

The 1993 SNA included all goods held by the government in inventories in line with the treatment of goods stored by market producers.

The 1968 SNA treated strategic materials, grains and other commodities of special importance to the nation as inventories; in general, stores of other commodities were not included in inventories.

**Extension of capital formation to include expenditures on valuables**

The 1993 SNA included expenditures on produced assets that are not used primarily for production or consumption, but acquired and held as stores of value, as capital formation under the category "acquisitions less disposals of valuables".

The 1968 SNA treated these acquisitions less disposals in various ways. In the case of households they were dealt with as final consumption expenditure.

**Extension of consumption of fixed capital to assets such as roads, dams and breakwaters**

The 1993 SNA recommended that consumption of fixed capital should be calculated for assets such as roads, dams and breakwaters.

The 1968 SNA suggested that consumption of fixed capital need not be calculated in respect of such assets because it was assumed that the maintenance and repair performed on these assets was sufficient to ensure that these assets had infinite service lives.

**Changes to the treatment of insurance**

In the 1993 SNA the basis of measuring the output of insurance was changed. Income from the investment of insurance technical reserves was taken into account when measuring the value of the services provided to policyholders. The income was distributed to policyholders as a property income flow and repaid to the insurance corporations as premium supplements.

The 1968 SNA did not take into account the premium supplements in measuring the output of insurance services.

## II. Main changes in the 2008 SNA from the 1993 SNA

**Definition of financial services enlarged**

The 2008 SNA enlarges definition of financial services to give due weight to the increase in financial services other than the financial intermediation, specifically financial risk management and liquidity transformation.

The 1993 SNA recognized only financial intermediation services.

**Research and development is not intermediate consumption**

The 2008 SNA recommends that the output of research and development should not be treated as intermediate consumption.

The 1993 SNA by convention treated the output of research and development as intermediate consumption.

**Refined method for calculating financial intermediation services indirectly measured**

In the 2008 SNA the method for calculating financial intermediation services indirectly measured, widely known as FISIM, has been refined. The 2008 SNA calculates the output of FISIM on loans ($V_L$) and deposits ($V_D$), using a reference

rate (rr). Assuming that these loans and deposits attract interest rates of $r_L$ and $r_D$ respectively, the output of FISIM should be calculated according to the formula $(r_L - rr) V_L + (rr - r_D) V_D$.

The 2008 SNA recommends that output of FISIM should be allocated between users (lenders and borrowers) treating the allocated amount either as intermediate consumption or final consumption or exports.

The 1993 SNA calculated FISIM as the difference between property income receivable and interest payable. Excluded from property income receivable is that part which was earned using the investment of the financial corporations' own funds. It gave choice to countries to continue using the convention to allocate the whole of FISIM to intermediate consumption of a notional industry.

**Valuation of output for own final use by households and corporations to include a return to capital**

The 2008 SNA recommends that when estimating the value of the output of goods and services produced by households and corporations for own final use to include a return to capital as part of the sum of costs for estimating output.

The 1993 SNA did not include the return to capital in estimating the output of goods and services produced for own final use by households and corporations when these were estimated as the sum of costs.

**The asset category "computer software" modified to include databases**

The 2008 SNA recommends treating all databases holding data with a useful life of more than one year as fixed assets whether created on own account or purchased on the market.

In the 1993 SNA only "large" databases were recognized as assets.

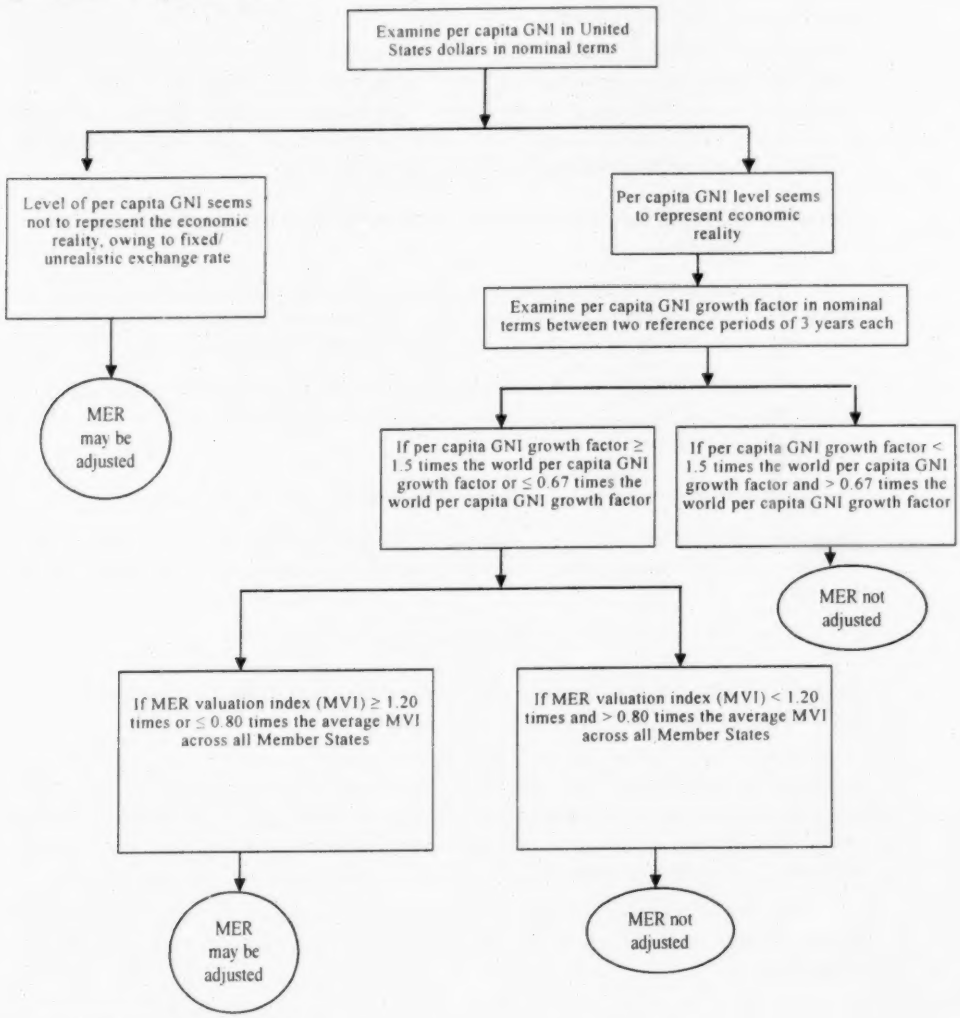
**Extension of the assets boundary and government gross capital formation to include expenditure on weapons systems**

Military weapons systems are seen to be used continuously in the production of defence services, even if their peacetime use is simply to provide deterrence. The 2008 SNA, therefore, recommends that military weapons systems should be classified as fixed assets. Single-use items, such as ammunition, missiles, rockets, bombs, etc., delivered by weapons or weapons systems are treated as military inventories.

The 1993 SNA treated as gross fixed capital formation only those expenditures by the military on fixed assets of a kind that could be used for civilian purposes of production.

# Annex III

## Systematic criteria to identify Member States for which market exchange rates may be reviewed for possible replacement


Examine per capita GNI in United States dollars in nominal terms
Level of per capita GNI seems not to represent the economic reality, owing to fixed/ unrealistic exchange rate
MER may be adjusted
Per capita GNI level seems to represent economic reality
Examine per capita GNI growth factor in nominal terms between two reference periods of 3 years each
If per capita GNI growth factor ≥ 1.5 times the world per capita GNI growth factor or ≤ 0.67 times the world per capita GNI growth factor
If per capita GNI growth factor < 1.5 times the world per capita GNI growth factor and > 0.67 times the world per capita GNI growth factor
MER not adjusted
If MER valuation index (MVI) ≥ 1.20 times or ≤ 0.80 times the average MVI across all Member States
If MER valuation index (MVI) < 1.20 times and > 0.80 times the average MVI across all Member States
MER may be adjusted
MER not adjusted

*Abbreviations*: GNI, gross national income; MER, market exchange rate.

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